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Memorandum

From: Laura Stevens Kent and Kate Finkelstein

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Subject: House passes budget reconciliation bill

Shortly before 7:00 this morning the House of Representatives passed its version of an FY 2025 budget reconciliation bill by a vote of 215-214, with two Republican members, Thomas Massie of Kentucky and Warren Davidson of Ohio, voting against it and House Freedom Caucus Chairman Andy Harris of Maryland voting present.

Before the House voted on the bill several aspects of it were changed to placate demands of various voting blocs within the Republican caucus. Prior to those changes, the non-partisan Congressional Budget Office (CBO) had estimated that the bill would cut federal Medicaid spending by $800 billion over ten years and lead to 8.6 million people losing their health insurance over that same period of time. Among those 8.6 million people, 7.6 million would lose Medicaid coverage and another one million would lose their Affordable Care Act marketplace plan coverage. Among the 7.6 million losing Medicaid coverage would be 1.4 million people who would become ineligible because of their immigration status.

According to the CBO, the overall bill, even with the $800 billion in Medicaid cuts, would increase the federal deficit by $3.8 trillion because of tax changes that include extending tax cuts enacted in 2017.

Key Medicaid Provisions

With special emphasis on aspects of the bill that have been changed over the past 24 hours, the following are its key Medicaid provisions:

Medicaid Financing Policies

- Locks states' current funding mechanisms by freezing the amount and rate of current provider taxes and allowing state directed payment (SDP) program that are approved or submitted via preprint to remain in effect at current payment levels.
    - Amended language in the House-passed bill limits non-grandfathered SDPs for services furnished on or after the enactment of this legislation from exceeding

100 percent of the published Medicare payment rate for expansion states and 110 percent for non-expansion states.

- Modifies the criteria HHS must consider when determining whether certain health care-related taxes are generally redistributive, affecting a current universe of at least eight taxes in seven states. This legislative language largely mirrors a proposed rule issued on May 15, 2025 – see that rule here.
- Prospectively sunsets the temporary five percent enhanced FMAP afforded to states that chose to expand Medicaid under the American Rescue Plan Act.
- Creates budget neutrality requirements for section 1115 demonstration projects, requiring HHS to certify that the total expenditures for those projects do not exceed what would otherwise have been spent absent the demonstration project.
    - Amended language in the House-passed bill expand the scope of the neutrality requirements by applying the policy to all expenditures – not just federal financial participation.
- Requires HHS to reduce federal financial participation to states for errors identified through the ratio of a state's erroneous excess payments for Medicaid starting in 2030.

Beneficiary Obligations

- Establishes "community engagement" requirements for able-bodied adults without dependents: individuals must complete 80 hours per month of some combination of work, community service, work program participation, or educational programming. Exclusions include:
    - pregnant women,
    - individuals under the age of 19 or over the age of 64,
    - foster youth and former foster youth under the age of 26,
    - members of a Tribe,
    - individuals who are considered medically frail,
    - individuals who are already in compliance with the work requirements under TANF or SNAP,
    - individuals who are a parent or caregiver of a dependent child or an individual with a disability, or
    - individuals who are incarcerated or have been released from incarceration within the past 90 days.

- Language provides that states shall establish processes and use reliable information without requiring, where possible, the applying individual to submit additional information
    - Amended language in the House-passed bill escalated the timeline for implication to no later than December 31, 2026 or sooner at the option of the state.

- Requires states to impose cost sharing, not exceeding $35 per service, on Medicaid expansion adults with incomes over 100 percent of FPL.
    - Amended language in the House-passed bill clarifies that any primary care, mental health care, or substance use disorder services are excluded.

Eligibility and Enrollment Policies

- Limits retroactive coverage in Medicaid to one month prior to an individual's application date for applications made on or after December 31, 2026. Current law provides retroactive coverage for up to three months prior to the month the eligible individual applies for Medicaid coverage.
- Requires states to conduct eligibility determinations for expansion population adults every six months rather than the current 12-month requirement under state plans scheduled on or after December 31, 2026.
- Prohibits FMAP in Medicaid for individuals whose citizenship, nationality, or immigration status has not been verified and eliminates the state requirement to make medical assistance available during the 90-day period in which the individual is afforded a "reasonable opportunity" to verify status.
- Reduces FMAP for the expansion population by ten percent, from 90 percent to 80 percent, for states that expanded Medicaid and that provide comprehensive health benefits coverage through the state's Medicaid infrastructure or another state-based program to individuals who are not "qualified aliens" or a child or pregnant woman who is lawfully residing in the United States and receiving medical assistance.
- Delays the implementation of two Biden Administration rules that made administrative and data-sharing changes to state eligibility verifications and enrollment requirements that were meant to make it easier for individuals to enroll in and maintain coverage in various Medicare, Medicaid, and CHIP benefit categories. For example, the rules increased states' ability to rely on public data sources for citizenship and asset verification, permitted automatic application into the Medicare Savings Program for any individuals that are eligible for the low-income subsidy program, streamlined eligibility verification for Medicaid-enrolled individuals over 65 and children covered by CHIP, and established automatic enrollment in the Qualified Medicare Beneficiary program for individuals that receive supplemental security income (SSI).
- Requires states to establish processes to regularly obtain beneficiary address information, including address information provided to managed care entities (where applicable).
- Requires HHS to establish a system to prevent individuals from being simultaneously enrolled in multiple state Medicaid programs by no later than October 1, 2029.
- Requires states to conduct quarterly review of the Social Security Administration's Death Master File, quarterly review of deceased providers enrolled in the state's Medicaid program, and monthly checks for terminated providers or suppliers beginning January 1, 2028.

Other Policies of Significance

- Delays reductions to Medicaid DSH state allotments scheduled for 2026-2028 for three years. The cuts will instead take effect from 2029-2031 without changes to the size of the cuts.
- Provides $8.9 billion in physician payment relief by basing 75 percent of the conversion factor for 2026 – and 10 percent for 2027 and beyond – on the increase in the Medicare Economic Index (MEI).
- Delays implementation and enforcement of the rule establishing minimum staffing standards for long-term-care facilities until January 1, 2035.
- Bans "spread pricing" in the Medicaid program, which occurs when pharmacy benefit managers retain a portion of the amount paid to them for prescription drugs.

- Requires participation by retail and applicable non-retail pharmacies in the National Average Drug Acquisition Cost (NADAC) survey, which measures pharmacy acquisition costs and is often used in the Medicaid program to inform reimbursement to pharmacies.
- Prohibits FMAP for specified gender transition procedures, enumerated in Section 44125 of the House-passed bill.
    - Amended language in the House-passed bill removes the limitation that the provision only apply to minors, thereby applying the policy to all Medicaid and CHIP funded procedures.
- Prohibits Medicaid funds from being paid to non-profit, essential community providers that are primarily engaged in family planning services or reproductive services and provide for abortions other than for Hyde Amendment exceptions, that received $1 million or more in payments from Medicaid payments in 2024.
- Makes a series of policy changes, taking effect for plan years beginning on or after January 1, 2026, affecting Affordable Care Act coverage, including:
    - instituting eligibility and income verification processes for ACA enrollees;
    - rolling back income-based special enrollment periods in the federally-facilitated and state ACA exchanges;
    - instituting ACA reenrollment requirements for enrollees in zero-dollar premium health plans;
    - prohibiting gender transition procedures from being included as an essential health benefit;
    - amending the definition of "lawfully present" for the purposes of qualified health plan enrollment; and
    - allowing issuers to require enrollees to satisfy debt for past-due premiums as a prerequisite for effectuating new health coverage.
- Expands the exclusion for orphan drugs under the Drug Price Negotiation Program.
- Requires states to establish a process to permit qualifying pediatric out-of-state providers to enroll as participating providers without undergoing additional screening requirements beginning four years after the date of enactment.

Key Medicare Provisions

The following are the House bill's major implications for Medicare.

- Specifies that only certain individuals – either citizens or individuals with a legal immigration status – may be covered by Medicare.
- Directs the Secretary of Health and Human Services to employ artificial intelligence to reduce and recoup improper Medicare payments starting no later than January 2027.
- Permits certain hospitals to quality as rural emergency hospitals.
- Provides for expanded use of health savings accounts.

Pay-As-You-Go (PAYGO) Rule

Because this bill would increase the deficit if it becomes law, the 2010 PAYGO rule dictates that automatic spending cuts would be triggered. Unless Congress waives the PAYGO rule for this bill or later passes a bill to zero out the PAYGO scorecard, Medicare payments would be subject

to a four percent reduction on top of the already in-place two percent Medicare sequester beginning in federal fiscal year 2027.

Up Next: The Senate

The process of developing reconciliation legislation now moves to the Senate, where majority leader John Thune (R-SD) has already stated that he expects the Senate's legislation to differ, in some places significantly, from the House bill. As was the case in the House, the majority leader will have to deal with a divided caucus: some members believe the House bill would cut Medicaid too much while others would like more aggressive cost-cutting, entitlement reform and deficit reduction. Beyond the health care provisions and deficit concerns, policy differences exist within the Republican Senate Conference on tax policy, energy credits, pension benefits, among others. The Senate also has different rules regarding reconciliation than the House and some of the provisions in the House bill may be identified by the Senate parliamentarian as not in line with those reconciliation rules. Another of majority leader Thune's challenges involves raising the debt ceiling: the federal government will reach its debt ceiling sometime between mid-August and October, necessitating action by mid-July. The House bill calls for a specific increase in that ceiling, and with Senate Republicans only able to afford losing four of their members if they hope to pass reconciliation legislation, one of those members, Kentucky Senator Rand Paul, has already said he will vote against any bill that includes the House-passed debt ceiling.

Ultimately, both chambers must pass identical bills. If the Senate passes a different bill, the House will either have to pass what the Senate passes or the two chambers will have to work out the differences and each chamber will need to vote again. They may or may not do that via a conference committee – they can make the changes via negotiations outside of a conference committee, if they choose.

Conclusion

To learn more about the House reconciliation bill, see the following resources:

- CBO score of the full bill (note: hitting this link directly downloads a file)
- House reconciliation bill text
- House amendment to the text
- CBO letter on PAYGO effect

And as always, please let us know if you have any questions.